



March 2007

California Postsecondary Education Commission

Overview of Governor Schwarzenegger's Proposed 2007-08 Budget

This report provides a summary of the Governor's proposed State budget for the upcoming 2007-08 fiscal year, with a focus on California postsecondary education. The report presents major programmatic highlights for higher education, along with charts describing both higher education and overall State funding levels in the proposed budget. The Commission will consider staff recommendations on selected budget proposals in a separate document.

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The Commission advises the Governor and the Legislature on higher education policy and fiscal issues. Its primary focus is to ensure that the State's educational resources are used effectively to provide Californians with postsecondary education opportunities. More information about the Commission is available at www.cpec.ca.gov.

Draft Commission Report

On Wednesday, January 10, 2007, Governor Arnold Schwarzenegger released his proposed State budget for the 2007-08 fiscal year, which begins on July 1, 2007. The budget includes \$143 billion in "general-purpose fund" (General, selected Special, and Bond funds) expenditures, a 1% increase over the current year. The State General Fund accounts for \$103 billion of this total. Display 1, on the next page, shows General Fund revenues and spending by program category.

Among the major initiatives proposed in the budget is a comprehensive plan to rehabilitate State infrastructure (schools, water storage, roadways, and prisons). It would allocate more than \$200 billion in capital construction spending over the next 20 years. The Governor is also proposing to provide health insurance to the State's uninsured children.

Display 2, on page 3, shows proposed Higher Education spending for State General Funds and State Determined Funds. General Fund spending on higher education is proposed to rise 6% and the UC, the CSU, and the CCCs each are proposed to get General Fund increases above 5%.

Increased State Revenues and Expenditures

According to economists at both the Department of Finance and the Legislative Analyst's Office, State revenues for the current (2006-07) and budget (2007-08) fiscal years are below initial estimates.

State revenues for the fiscal year that ended on June 30, 2006, were \$678 million above projections. For 2006-07, State revenues through January 2007 are almost \$900 billion below initial estimates. Regarding expenditures, the budget's proposed \$103 billion in General Fund spending is \$2 billion higher

DISPLAY 1 Revised 2006-07 and Proposed 2007-08 State General Fund Revenues and Expenditures (\$\$ in millions)				
REVENUES	Revised 2006-07	Proposed 2007-08	Dollar Change	Percent Change
Revenues	\$94,519	\$101,278	\$6,759	7.2%
EXPENDITURES				
Exec-Leg-Judicial	\$3,505	\$3,793	\$288	8.2%
State, Consumer Services	602	575	-\$27	-4.5%
Business-Trans-Housing	3,026	1,588	-\$1,438	-47.5%
Resources, Environment	2,253	1,558	-\$695	-30.8%
Health, Human Services	29,797	29,848	\$51	0.2%
Corrections, Rehab.	9,183	9,989	\$806	8.8%
Non-Prop 98 Education ¹	10,281	11,058	\$777	7.6%
Prop 98 Education	40,812	41,190	\$378	0.9%
Labor, Workforce Devel.	105	118	\$13	12.6%
<u>General Government</u>	<u>2,573</u>	<u>3,425</u>	<u>\$851</u>	<u>33.1%</u>
Total	\$102,137	\$103,141	\$1,004	1.0%
1. Includes UC, CSU, CSAC, Hastings, other; <u>excludes</u> most CCC funding.				
Source: California Department of Finance 2007-08 budget materials.				

than anticipated revenues for the budget year. However, with the large carry-over of unspent funds from both the prior year and those anticipated from current years, the Governor projects that the budget year will end June 30, 2008, with a reserve of around \$2 billion. The main uncertainty surrounding the budget proposal is the level of available tax revenues for the remainder of the current year and into the budget year. Should the current-year drop in anticipated tax collections (mostly in state income taxes) extend into the spring and summer months, both the current year and proposed 2007-08 State budgets will be in deficit.

Higher Education

The higher education budget anticipates increases in system-wide undergraduate student fees of 7% in the UC and 10% in the CSU. Highlights in the education budget include:

University of California

- \$117 million increase (4%) for basic budget support; \$54 million increase (2.5%) for enrollment growth of 5,000 full-time equivalent (FTE) students.
- \$24 million, in total, for the California Institutes for Science and Innovation and for the UC's bid for the National Science Foundation's "Petascale" supercomputer project.
- \$19 million reduction to eliminate State funding for student academic preparation and education programs.
- \$14 million in continued start-up funding for UC Merced.

California State University

- \$109 million increase (4%) for basic budget support; \$66 million increase (2.5%) for enrollment growth of 8,355 FTE students.
- \$2 million increase to establish three regional science and math teacher recruitment centers.
- \$7 million reduction to eliminate State funding for student academic preparation and education programs.

California Community Colleges

- \$109 million increase (2%) for enrollment growth (apportionments) of 23,000 FTE students.
- \$225 million increase for a 4.04% COLA for general-purpose apportionments.

- \$9 million increase, plus \$9 million in additional one-time funds, to support additional nursing instructional capacity in community colleges.
- \$33 million redirected from unused enrollment growth funds for a \$14 million increase for the Matriculation Program (orientation, counseling and academic assessment, etc.) and \$19 million for targeted counseling and support services for students at risk of not completing their educational program.
- \$32 million to expand career technical education programs, per prior legislation.
- \$1 million in one-time funds unused in the current year for the California Partnership for Achieving Student Success (CalPASS) program, an inter-segmental initiative designed to help the public education systems improve articulated course sequencing and curricula.

DISPLAY 2 Proposed 2007-08 Higher Ed. Funds (\$\$ in 000s)				
Entity	2006-07 (est.)	2007-08 (proposed)		
	St. General Funds¹	St. General Funds¹	Percent Change	St. Determ'd Funds²
CPEC	\$2,177	\$2,186	0.4%	\$2,186
UC	3,077,984	3,270,067	6.2%	5,452,435
Hastings	10,671	10,631	-0.4%	39,820
CSU	2,811,384	2,976,335	5.9%	4,393,817
CCC	5,972,986	6,283,442	5.2%	6,832,606
CSAC	827,178	891,608	7.8%	891,608
Other H.E. ³	<u>1,361,328</u>	<u>1,475,839</u>	<u>8.4%</u>	<u>1,475,839</u>
Totals	\$14,063,708	\$14,910,108	6.0%	\$19,088,311

1. CCC State General Funds **include** Local Property Tax Revenues.

2. State Determined Funds = General and local funds, H.E. student fees and Income, lottery funds; **excludes** federal and extramural funds.

3. Includes H.E. bond debt service, retirement costs, the California Institute for Regenerative Medicine.

Source: Governor's Proposed 2007-08 State Budget.

Student Aid Commission

- \$61 million increase for anticipated growth in the Cal Grant Program.
- \$3 million increase for growth in the Assumption Program of Loans for Education (APLE).

Bureau for Private Postsecondary and Vocational Education

Under current law, the Bureau ceases to exist after midnight of June 30, 2007. The Legislature and Administration are currently developing legislation to maintain Bureau operations within another State agency and to reform the existing laws governing this function. The Governor's proposed budget includes \$11.4 million in federal and special funds to continue Bureau activities in the new entity that will replace it.

Education – Proposition 98

Proposed 2007-08 Proposition 98 funding for K-12 education, the community colleges, and other agencies totals \$56.8 billion, 3.3% over the revised estimate for the current year. The State General Fund accounts for \$41.2 million (72.5%) of the total, with the balance of \$15.6 million from local revenues.

Two possible changes in which programs are included within the Proposition 98 funding guarantee could effect future Prop. 98 funding. The budget proposes shifting the \$627 million Home-to-School Transportation program from Proposition 98 and into the transportation budget's Public Transportation Account. Another proposal would move \$269 million in CalWORKS child-care program spending from federal Temporary Assistance for Needy Families (TANF) block grants into Prop. 98, which would put all of the child-care expenses into the Prop. 98 funding guarantee.

K-12 Education

The Governor's 2007-08 budget proposes \$50.4 billion in Proposition 98 funding for K-12 Education, a 2% increase over the revised estimate for 2006-07. Highlights of the K-12 spending plan include:

- \$1.9 billion overall increase, for a 4.04% cost-of-living adjustment (COLA). Funded components include: \$1.4 billion for revenue limits; \$133 million for special education; \$62.1 million for child care programs; \$49.6 million for class size reduction; and \$277.9 million for various categorical programs.
- \$186 million in one-time Proposition 98 funding for items including: \$100 million for school facility emergency repairs; \$43.9 million for charter school facilities; \$8.8 million for teacher induction programs; and \$5 million for California High School Exit Exam study guides.

Other Budget Highlights

Next are brief summaries from other areas of the proposed budget:

Health and Human Services – various programs to enroll more children in health coverage in the Medi-Cal, Healthy Families, and other insurance programs; and the reduction of combined State, local and federal spending for CalWORKS caseload by 12%, for an estimated savings of \$324 million in the budget year and \$426 million each year thereafter.

Workforce Development – combined State, local and federal funding of \$11.2 billion for California workforce development, employer training support, labor law enforcement, and related services for a \$311 million decrease from the revised 2006-07 spending.

Corrections – proposes \$10 billion from State and federal fund sources, a 2.6 % increase over revised 2006-07 spending; includes around \$380 million for costs associated with meeting requirements of court orders and both previously settled and ongoing lawsuits.

Transportation – proposes \$13 billion (\$11 billion from non special and other funds); for the Department of Transportation, an increase of \$1.5 billion from the revised 2006-07 budget due primarily to the implementation of the voter-approved Proposition 1B (November 2006).

Implementation of State Initiatives – proposes various amounts of State General, special and federal funds to begin implementation of recently enacted laws and voter-approved initiatives, including: Proposition 1C, the Housing and Emergency Shelter Fund Act of 2006; Proposition 1E, the Disaster Preparedness and Flood Prevention Bond Act of 2006; Proposition 84, on Water Quality, Safety And Supply, Flood Control, Natural Resource Protection, and Park Improvements; and the California Global Warming Solutions Act (AB 32, Nunez and Pavley, Chapter 488, Statutes of 2006).

Statewide Issues – as in the current year, proposes \$100 million in savings through mid-year reductions in program costs; funds the recently created Public Employee Post-Employment Benefits Commission, empaneled to examine presently underfunded retirement benefits (pension benefits, health benefits, etc.) for state and local governments and to recommend how to address these costs.

Conclusions

The proposed State budget includes \$1.7 billion in prepayment of prior-years' debt financing and includes a \$2.1 billion reserve. With only minimal growth in ongoing operations funds planned for most government programs, this proposal brings California's State budget closer to being in balance than it has been since the very beginning of this decade. However, as noted by the Legislative Analyst, some

of the revenue and expenditure assumptions in the proposed budget may not materialize as expected. The most recent data on State revenues show tax receipts are running nearly a billion dollars below earlier projections.

The budget proposes \$19 billion in state-determined general purpose funds for California higher education, a one-year increase of around 10%. The proposed budget funds three Commission priorities: (1) anticipated student enrollment growth; (2) student financial aid needed to maintain access for needy Californians; and (3) improved vocational education opportunities. However, the proposed budget does not call for a freeze on resident system-wide student fees and includes no “buy-out” for anticipated increases in these fee levels in the UC and the CSU. In addition, the budget again proposes the elimination of State funding for all CSU and UC academic preparation programs, even those evaluated as being successful. All of these proposals will be carefully examined in the Legislature during budget hearings over the next several months, with final budget determinations to be made during the summer months.

The Commission has developed a set of recommendations on higher education issues proposed in the 2007-08 budget for consideration at the March 2007 Commission meeting.

Information for this report was provided by the California Department of Finance, Legislative Analyst’s Office, and other sources. Additional information on the Governor’s Proposed 2007-08 State Budget can be found at the following websites:

Calif. Department of Finance: <http://www.ebudget.ca.gov/>

Legislative Analyst’s Office: http://www.lao.ca.gov/2007/budget_overview/07-08_budget_ov.pdf

